Introduction

Banking is said to be the backbone of any economy as it has a direct bearing with financial and economic development. Economic development becomes faster if the banking sector is stronger and efficient. The importance of banking sector is highly recognised in emerging economies. With the inception of financial sector reforms in 1992 the competition in the Indian banking sector has increased.

Retail finance or retail lending is that segment of retail banking which offers various loan products. Retail finance means providing service to individuals, focusing on individual needs for different kind of financial services in an integrated manner. The typical products offered in Indian retail finance segment are housing loans, consumption loan for the purchase of durables, auto loans, credit cards and personal loans. The loan values of retail lending are small and the loans are widely distributed.

Retail sector is a good avenue to banks for fund deployment. The dependence of banks on a few or single borrower can be reduced through diversified portfolio with a huge customer base in retail lending. Through retail lending the life style of the people can be improved and their aspirations can be fulfilled. Retail finance has now become an important segment of bank credit. It helps banks to have good profits and push the economy towards growth. An important segment of bank credit is retail lending. The comprehensive, inclusive and pervasive growth of India can be achieved through retail lending. The growth of retail banking in future will depend on retail lending. One of the most important dimensions of retail lending is the customer service. In this context the present study is conducted to compare the retail finance practices of old commercial banks and new generation banks and to compare the level of customer satisfaction in the two types of banks.

Statement of the problem

One of the spectacular innovations in the Indian commercial banking sector in the recent years is retail lending. Retail finance means providing service to individuals, focusing on individual needs for different kind of financial services in an integrated manner. It is a method of banks approach to the consumers for selling their products. These products are consumer oriented like home loan, auto loan, consumer durables loan etc. Retail banks, therefore have large customer base and large number of transactions with small values. Retail segment is a good avenue for funds deployment for banks. It is presumed that consumer loans are of lower

risk and NPA perception. Bank can reduce their dependence on few or single borrower through diversified portfolio of huge customer base. It is possible to improve lifestyle and fulfil the aspirations of the people through affordable credit in retail lending. Further, through increased production activity the economic revival of the nation can be achieved. The banks are thus competing with one another in retail lending. The lending practices followed by the banks differ with regard to the maximum amount of the loan sanctioned, the security requirements, interest rates, processing fee, margin requirements etc. The practices followed by banks in the monitoring of retail credit also vary. The cost of loan also varies between banks. Thus the present study is undertaken to compare the retail finance practices of old commercial banks and new generation banks, by considering the lending practices, methods used to monitor the retail loans and cost of borrowings. The study is also intended to compare the satisfaction level of borrowers of old commercial banks and new generation banks. Thus the present study is stated as ***"Retail Finance Practices- A Comparative Study of Old Commercial Banks and New Generation Banks".***

Scope of the study

The scope of the present study is limited to the SBI and associates, nationalised banks, old private sector banks and new generation banks. Hence foreign banks, RRBs and co-operative banks are beyond the scope of the study. The retail finance practices of the selected banks are studied by considering the various aspects of retail lending and monitoring mechanism adopted by the banks. The satisfaction of borrowers are also analysed by taking twenty parameters affecting them. The study is limited to the State of Kerala.

Objectives of the study

1. To go through the concept of Retail Banking in India
2. To understand the retail lending practices of Old Commercial Banks and New Generation Banks in Kerala.
3. To find out the monitoring mechanism of retail finances of the banks under study.
4. To examine and compare the cost of borrowing between the banks under consideration.
5. To discover the satisfaction level of customers of the banks.
6. To detect problems, if any, associated with the retail finance practices and customer satisfactions of the banks under study.
7. To offer suggestions and recommendation based on the findings.

Hypotheses

1. There is no significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to monetary factors, loan related factors, service factors and facilities in the bank.
2. There is no significant difference in the overall satisfaction level between the customers of old commercial banks and new generation banks.

Methodology

The research design adopted for the study is descriptive and analytical. Both primary data and secondary data are used for the study. For comparing the retail finance practices of old commercial banks and new generation banks, eight banks have been selected. The sample banks include six old commercial banks and two new generation banks. The sample banks are selected on the basis of the presence of banks in the state of Kerala in terms of the number of branches and total advances as on June 2012. Banks having larger number of branches and advances are taken as sample. The lead banks of the selected districts are also given due consideration in the selection of sample banks. Thus State Bank of India, State Bank of Travancore, Canara Bank, Union Bank of India, Federal Bank, South Indian Bank, HDFC Bank and ICICI Bank constitute the sample. The study is also intended to compare the level of satisfaction of borrowers of old commercial banks and new generation banks. For comparing the satisfaction level of customers, twenty parameters are identified by the researcher and grouped them under four major factors. Customer satisfaction level is compared within each of the parameters and factors. Overall satisfaction level is also compared by taking the twenty parameters together.

Multi stage sampling method is adopted for the collection of data. At first stage the State Kerala is divided into three zones- north, central and south. From each zone one district is selected at random. Palakkad, Kottayam and Kollam are the sample districts. From each of the selected districts 100 retail borrowers are selected randomly – 70 from old commercial banks and 30 from new generation banks. Data is collected by using a pre-tested interview schedule. The collected data is analysed with the help of SPSS. Tables, diagrams, ratios, percentages, averages, standard deviation chi-square test and t test are the tools used for the analysis. Secondary data are also collected from various books, magazines, reports of sample banks, RBI publications, Government publications and internet.

The study is divided into seven chapters. Chapter one is the introductory chapter consisting of a brief introduction, statement of the problem, objectives of the study, methodology and limitations. Review of literature is done in chapter two. Chapter three includes a description of the profile of Indian banking industry and profile of sample banks and a brief description of retail banking in India is given in chapter four. Chapter five discuss the retail lending practices of sample banks and analysis of primary data is done in chapter six. Summary of findings and recommendations is in chapter seven.

Findings

The following are the important findings of the study.

The retail loan portfolio of scheduled commercial banks in India includes housing loan, auto loan, consumer durables loan, credit card and personal loans. The retail advances of scheduled commercial banks in India as well as Kerala are showing an increasing trend during the period 2004-2013 but the proportion of retail advances to total advances is decreasing. Housing loan constitute the major share of retail advances of scheduled commercial banks.

Retail lending practices

Old commercial banks and new generation banks have the same criteria in deciding the eligibility of the borrowers. The old commercial banks are charging lesser interest and processing charges as compared to new generation banks. The new generation banks require lesser security, demand lesser margin, allow greater tenure of loan and process the loan within shorter time compared to old commercial banks.

Monitoring mechanism of retail loans

The regularity of repayment is more in new generation banks and the two types of banks follow the same methods for intimating the defaulting borrowers. The defaulters are intimated early by the new generation banks and they intimate more number of times than old commercial banks. The penalty for the default is more in new generation banks. The net NPA ratio of total advances and retail advances is less in new generation banks than in old commercial banks. The ratio is showing a decreasing trend in new generation banks.

Cost of borrowings

Cost of housing loan, vehicle loan and personal loan is higher in new generation banks compared to old commercial banks.

Customer satisfaction

There is no significant difference in the overall satisfaction level between the customers of old commercial banks and new generation banks. There is significant difference in level of customer satisfaction in two factors –monetary factors and facilities in the bank. While considering the twenty parameters significant difference in satisfaction level exist in five cases between old commercial banks and new generation banks.

Conclusion

The retail lending practices of old commercial banks and new generation banks differ. The new generation banks are stricter in the treatment of defaults. The cost of loan is more in new generation banks. The customers are satisfied highly in both types of banks and there exist difference in satisfaction level in two factors and five parameters. The satisfaction level is more in old commercial banks in case of monetary factors and level of satisfaction is more in new generation banks in facilities in the bank. Thus the retail finance practices differ between old commercial banks and new generation banks.